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Decision 92-12-044 December 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
Southern California Edison Company
(U 338-E) for Authority to Sell
Yuma-Axis Generating Station and
Related Properties.

ORIGINAL
Application 90-08-014
(Filed August 3, 1990)

INTERIM OPINION

On August 3, 1990, Southern California Edison Company (Edison) filed an Application pursuant to Public Utilities (PU) Code § 851, seeking approval of the sale of its Yuma-Axis Generating Station (Yuma-Axis) and related properties to the Imperial Irrigation District (IID) in accordance with the terms of an Agreement of Sale (Agreement) entered into between Edison and IID on January 29, 1990. Filed with the Application was Edison's Report in Support of Sale (the Report) which set forth Edison's (1) reasons for the sale, (2) valuation of the property sold, and (3) cost-effectiveness analysis of the ratepayer benefits from the sale. On September 11, 1990, the Commission's Division of Ratepayer Advocates (DRA) filed a Protest challenging Edison's proposed allocation of sale proceeds. In Addition, on September 11, 1990, Toward Utility Rate Normalization (TURN) filed a Protest challenging Edison's cost analysis and proposed allocation of sale proceeds. Also, in September, 1990, TURN submitted and served on Edison TURN's First Data Request which requested data under 21 separate numbered requests. There the matter stood for an extended period of time.

On February 20, 1992, DRA filed a "Motion To Exclude Previously Decided Issues From The Proceedings And To Grant Conditional And Partial Approval Of The Application, Or In The Alternative, For A Ruling Requiring Applicant To Submit Additional Testimony" (Motion To Exclude). Concurrently with the filing of

the Motion to Exclude, DRA also filed its Report on the Evaluation of Ratepayer Benefits from [Edison's sale of the Yuma-Axis Generating Station]. In its report, DRA evaluated the ratepayer benefits from the sale of the Yuma-Axis facilities and determined the sale would result in a net cost to ratepayers. Edison filed a response in which it contested DRA's position and asserted that the Commission's determination of the appropriate allocation of the proceeds from the sale of utility property was not automatic and should be resolved on a case by case basis.

Subsequent to the submission of the above pleadings by the parties, the Commission decided Southern California Water Company (SoCalWater)¹, which is the most recent Commission decision on the gain-on-sale allocation issue. Following that decision, DRA and Edison met to reanalyze the facts of this proceeding and tentatively agreed to request that the proceeding be bifurcated, that the sale be approved and the Commission establish a subsequent phase in which to address the proper rate base offset period for the gain-on-sale realized.

The Administrative Law Judge (ALJ), to whom the proceeding had recently been transferred, held a Prehearing Conference (PHC) in this matter on October 22, 1992. At the PHC, the representative of TURN advised that the data request filed by TURN in September 1990 had been fully satisfied and that TURN had no unresolved procedural matters outstanding. DRA advised that DRA and Edison had reached a tentative agreement as above set forth and that those parties would, within a week, file a motion to that

1 Re: SoCalWater, Decision (D.) 92-03-094, (March 31, 1992). In that case, the Commission applied the net after-tax gain-on-sale against SoCalWater's rate base. An Order Denying Rehearing of D.92-03-094 was issued by the Commission (D.92-08-046) on August 11, 1992.

effect, at which time DRA would withdraw its February 20, 1992, Motion to Exclude, which was still pending.

Present Motion

On October 30, 1992, in conformity with the representations made at the PHC, DRA and Edison filed a "Joint Motion of Southern California Edison Company (U 338 E) and The Division of Ratepayer Advocates For Expedited Ex-Parte Approval of the Sale of the Yuma-Axis and Its Related Properties and Bifurcation of the Proceeding" (the Joint Motion).

The Joint Motion by its terms reflects the agreement of DRA and Edison that there is a net ratepayer benefit arising from the sale of the Yuma-Axis if the gain-on-sale is applied to reduce rate base. The Joint Motion requests that the Commission authorize the sale on an ex parte basis prior to the end of 1992. The only remaining issue concerns the ratemaking treatment for allocating the benefit of the gain-on-sale to ratepayers through an offset in rate base. DRA and Edison request that the Commission establish a subsequent phase in which to address the proper rate base offset period for the gain-on-sale.

By letter dated November 2, 1992, to the presiding ALJ, TURN's representative advised:

"...TURN has reviewed the Joint Motion submitted by Edison and DRA, and agrees both with the reasoning presented and the relief sought therein. Unfortunately, due to inadvertent miscommunication between the parties, TURN was unable to be included as a party to this Joint Motion without jeopardizing the motion's timely filing. However, despite the absence of our formal signature, TURN wishes to be treated as if we had indeed signed the Joint Motion before its filing. I have been authorized by both Edison and DRA to represent their agreement that had circumstances allowed, TURN would have been provided the opportunity to sign the final document. Therefore, TURN asks to be acknowledged as being an additional party seeking the relief described in the Joint Motion."

TURN's request should be granted, and, for the reasons hereafter stated, the Joint Motion likewise should be granted. In addition, DRA's request to withdraw its February 20, 1992, Motion should be granted.

Exhibits

In support of, and annexed to the Joint Motion are the affidavit of Ronald Daniels, Vice President of Regulatory Projects at Edison, dated October 30, 1992, together with supporting documentation (Attachment B); the affidavit of Abdul H. Khan, Regulatory Economist, Regulatory Policy and Affairs Department, Edison, dated October 30, 1992, together with supporting documentation (Attachment C); the affidavit of Richard Clarke, Property Accounting Manager, Edison, Rosemead, California, dated October 30, 1992, together with supporting documentation (Attachment D); and affidavit of Timothy J. Sullivan, Program and Project Supervisor, Financial and Economic Analysis Branch, DRA, California Public Utilities Commission, dated October 30, 1992 (Attachment E). For purposes of the record, the foregoing documents have been redesignated as follows and admitted in evidence:

Attachment B (pp B-1 through B-20) admitted as Exhibit 1

Attachment C (pp C-1 through C-7) admitted as Exhibit 2

Attachment D (pp D-1 through D-7) admitted as Exhibit 3

Attachment E (pp E-1 through E-3) admitted as Exhibit 4

Also in support of the Joint Motion, the parties have agreed to and annexed to the Joint Motion as Attachment A (pp A-1 through A-3), 23 separate Proposed Findings of Fact. We adopt these 23 Proposed Findings of Fact in their entirety as Findings of Fact 2-23 herein.

Discussion

Edison and IID desire that the transfer of the Yuma-Axis and related properties be completed as soon as possible. Edison and IID executed the agreement for the sale of the properties on January 29, 1990. IID needs the Yuma-Axis facilities to fulfill part of its need for capacity to meet its increasing load.

The parties agree that there is a threshold of benefits that would accrue to ratepayers as a result of the sale. The parties have determined and agree that when a rate base offset is reflected in the cost-effectiveness analysis of the sale, the sale is beneficial to ratepayers, and for that reason should be authorized.

In the original cost-effectiveness analysis of DRA and of Edison, neither party reflected the rate base offset in their analysis. Edison's cost-effectiveness analysis provided in its Report (SCE-2, p. 7-1) indicated a 1990 net present value of \$4.5 million in ratepayer benefits. DRA concluded in its Report filed on January 20, 1992, that the sale would result in a cost to ratepayers in the amount of \$10 million. The delay to July 1992, increased DRA's estimate of these "negative benefits" to \$3.9 million.

Consistent with recent Commission decision-making on the treatment of the gain-on-sale, both parties agree that a cost-effectiveness analysis of the sale should reflect the rate base offset in this proceeding. (See Exhibit 2.) Incorporating the rate base offset method for the gain-on-sale in the cost-effectiveness analysis of the Yuma-Axis facilities demonstrates that there is a net ratepayer benefit to the sale under both Edison's and DRA's analysis.

Edison and DRA agree that the net after-tax gain from the sale of the Yuma-Axis facilities will be approximately \$13.3 million (see Exhibit 3, p. D-3). We recognize that the actual after-tax gain-on-sale may differ somewhat depending on, among

other things, the actual closing date, costs of sale and taxes; nevertheless, the after-tax gain-on-sale will be significant.

In view of the change in position necessitated by recent Commission decisions on gain-on-sale, Edison has withdrawn the original testimony of Ronald Daniels concerning the allocation of the gain-on-sale of the Yuma-Axis facilities. Edison now proposes to offset its rate base by the amount of the net after-tax gain-on-sale over a 16 year period. DRA reserves the right to propose in a subsequent phase in this proceeding that the rate base be reduced in perpetuity by the amount of the gain-on-sale.

After a review of the application, the Joint Motion and the Exhibits in support thereof, we conclude that this proceeding should be bifurcated into two phases; the first of which (Phase I) is the present in which the question of whether the sale should be authorized is considered. Phase II shall deal with the issue of the proper allocation of the net after-tax gain-on-sale realized. We conclude in Phase I that the sale should be authorized.

Findings of Fact

1. The properties which are the subject of the proposed sale consist of:

- a. The Axis Station, which is located on 39.07 acres of land near the City of Yuma, Yuma County, Arizona, which includes the Axis Steam Plant and a 25 MW combustion turbine both of which are wholly owned by Edison;
- b. Two 161 kV transmission facilities and related rights-of-way, consisting of:
 - 1) A 161 kV line interconnecting the Axis Station to the 161 kV bus of IID's Pilot Knob Substation in Imperial County, California, and
 - 2) An unenergized 161 kV line interconnecting the 161 kV bus of Pilot Knob Substation to the Mexican border. This line (under other ownership) continues on the Ruiz Cortinez Substation in Mexico;

- c. A waste water pipeline and rights-of-way located in Yuma County, Arizona; and
- d. Telecommunications equipment associated with the Axis Station (consisting of a communication system and telemetering equipment), located in Yuma County, Arizona, and land rights for a right-of-way interconnecting the Axis Station to IID's Pilot Knob Substation in Imperial County, California.

2. The Axis Station was originally used by Edison to serve the Blythe, California area.

3. The Blythe area load is now connected to Edison's main system.

4. The Axis Station and related properties have been included in Edison's rate base since 1964 when they were acquired in the merger with California Electric Power Company (CEP).

5. On December 4, 1956, CEP, Arizona Public Service Company (APS), and IID signed a Power Coordination Agreement which provided, among other things, for the construction by CEP of a generating facility of approximately 80 MW capacity, together with related facilities, as the initial unit of the Axis Station.

6. The initial generating unit at Axis Station, a steam-electric generating unit rated at 75 MW (Axis Steam Plant), went into commercial operation on April 14, 1959, and is currently in service.

7. In 1964, Edison acquired ownership of these facilities when it merged with CEP.

8. Operating expenses and operating output from the Axis Steam Plant are shared with APS and IID in accordance with the Power Coordination Agreement.

9. APS and IID pay Edison a monthly carrying charge for Edison's investment in the Axis Steam Plant based on their relative participation shares.

10. In 1978, Edison installed the 25 MW gas combustion turbine peaking unit at the Axis Station.

11. This generating unit belongs solely to Edison and the output is not shared with APS or IID.
12. APS operates the two Edison-owned units.
13. Edison owns the 1.5 mile 161 kV transmission line between the Axis Station and IID's Pilot Knob Substation, and the 1.4 mile 161 kV transmission line from Pilot Knob to the Mexican border.
14. Power from the Axis Station is transmitted by IID from Pilot Knob Substation to Edison's system.
15. The estimated net after tax gain-on-sale is approximately \$13.3 million.
16. Edison's 1993 estimate of Net Present Value determination of ratepayer benefits without the rate base offset is \$7.16 million.
17. DRA' 1993 Net Present Value estimate of ratepayer benefits without the rate base offset is negative \$5.57 million.
18. The 1993 net present value of DRA's determination of ratepayer benefits when reflecting the rate base offset is \$13.33 million.
19. The 1992 revenue requirement associated with the Axis Station that is currently reflected in Edison's rate is \$1.741 million.
20. All of the figures referenced above are estimates and are based on a closing date of December 31, 1992.
21. The final costs and figures for the gain-on-sale may vary from those referred to in the Joint Motion depending on actual closing costs and the closing date.
22. The agreed upon sale price for the Axis Station and related properties is \$23 million.
23. As of December 31, 1992, the original cost of the property which is the subject of the proposed sale is projected to be \$18.4 million and the accumulated depreciation is expected to be \$16.7 million, resulting in a net book value of \$1.7 million.

Conclusions of Law

1. The sale of Edison's Yuma-Axis and related properties to IID in accordance with the terms of the January 29, 1990 Agreement is in the public interest and should be approved.
2. Edison should hold the gain-on-sale in a suspense account pending the Commission's decision on the proper method for applying the gain-on-sale to offset rate base.
3. The allocation of the net after-tax gain-on-sale realized should be determined in Phase II of this proceeding under a schedule to be hereafter determined.
4. DRA's request to withdraw its February 20, 1992, Motion to Exclude Previously Decided Issues From The Proceedings And To Grant Conditional And Partial Approval Of The Application, Or In The Alternative, For A Ruling Requiring Applicant To Submit Additional Testimony should be granted.
5. Upon completion of the sale (closing), Edison should remove from rates the revenue requirement associated with the Yuma-Axis and related properties included in the Authorized Level of Rate Base Revenue under the Electric Revenue Adjustment Mechanism (ERAM).

INTERIM ORDER

IT IS ORDERED that:

1. The sale of Southern California Edison Company's (Edison) Yuma-Axis Generating Station (Yuma-Axis) and related properties to Imperial Irrigation District (IID) in accordance with the terms of the January 29, 1990 Agreement of Sale is hereby approved.
2. Edison shall hold the gain-on-sale in a suspense account pending the Commission's decision on the proper method for applying the gain-on-sale to offset rate base.

3. The allocation of the net after-tax gain-on-sale realized is to be determined in Phase II of this proceeding under a schedule to be hereafter determined.

4. Division of Ratepayer Advocates' (DRA) request to withdraw its February 20, 1992, Motion to Exclude Previously Decided Issues, From The Proceedings And To Grant Conditional And Partial Approval Of The Application, Or In The Alternative, For A Ruling Requiring Applicant To Submit Additional Testimony is granted.

5. On completion of the sale (closing), Edison shall, by Advice Letter filing, remove from rates the revenue requirement associated with the Yuma-Axis and related properties included in the Authorized Level of Rate Base Revenue under the Electric Revenue Adjustment Mechanism.

This order is effective today.

Dated December 16, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


NEAL J. SHULMAN, Executive Director